**Testimony of**
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**Okemos, Michigan**
**Before the**
**Senate Energy & Technology Committee**
**Tuesday, October 4, 2011**
**Lansing, Michigan**

Good afternoon. My name is Craig Borr and I am President & Chief Executive Officer of the Michigan Electric Cooperative Association in Okemos, Michigan. My thanks to Chairman Nofs for inviting MECA to testify before the Committee this afternoon.

MECA is the statewide trade association for Michigan's 11 electric cooperatives who collectively serve more than 300,000 homes, farms and businesses in 59 of Michigan's 83 counties [1]. Electric cooperatives are not-for-profit, member-owned and controlled utilities governed by boards of directors that are elected by the membership.

My comments will be in four primary areas: (1) the leadership role Michigan's electric cooperatives are playing in renewable energy; (2) how Michigan's electric cooperatives are meeting the current renewable energy requirements in PA 295 ; (3) suggestions for improvement to Michigan's current RPS statute and; (4) changes in the renewable energy landscape that could impact Michigan's RPS.

Michigan's electric cooperatives are proud to be leaders in renewable energy. To illustrate, let me point to two specific examples. First, Cloverland Electric Cooperative, based in Sault Ste. Marie, Michigan, has one of the highest

percentages of renewable energy in its portfolio of any electric utility in Michigan. As a result of ownership and operation of its own hydroelectric generating facility on the St. Mary's River, Cloverland already meets and exceeds Michigan's RPS. Secondly, that leadership is demonstrated with Wolverine Power Cooperative and its member cooperatives. Even prior to an RPS statute here in Michigan, Wolverine and its member cooperatives moved forward in partnership with John Deere Wind Energy to develop the state's first utility-scale wind farm in Huron County. This $100 million wind farm has been providing renewable energy to Wolverine and its member-cooperatives since late 2007—nearly a year prior to the RPS being enacted here in Michigan.

Michigan's electric cooperatives are taking actions to comply with the provisions of PA 295 that require state utilities to purchase increasing amounts of renewable energy as required in the statute. Wind and hydro are the principal fuels allowing Michigan's electric cooperatives to work towards meeting that 10% renewable goal by 2015. I am confident that our member-cooperatives will meet the 10% by 2015 goal provided we do not see significant changes in federal tax policy for renewable energy in the US Congress—more on that in a moment. However, I believe it is critically important to point out that Michigan's electric cooperatives **do not** support any increase to the current 10% RPS level here in Michigan.

I would be remiss if I did not use this opportunity to raise some of the concerns that Michigan's electric cooperatives have with the current renewable energy purchase provisions of PA 295. Michigan's electric cooperatives believe consideration should be given to removing the instate purchase requirement for renewable energy presently contained in PA 295. Simply stated, Michigan utilities

should have the ability to purchase renewable energy from developments in other states throughout the Midwest that have more competitive wind energy options. Today, there are more than 17,000 megawatts of wind capacity under various stages of development in the Midwest ISO—sadly, Michigan utilities will not have access to that generation due to the in-state purchase requirement.

To illustrate my point, developers in Illinois today are offering wind energy to the marketplace at $40.00/MWh, whereas similar wind energy projects here in Michigan are priced at $60.00-$80.00/MWh. Our member-customers are continually asking us to be more competitive with respect to their costs—eliminating the mandatory in-state purchase requirement in the Michigan RPS for renewable energy would help Michigan utilities be more competitive with our cost of wind energy.

Finally, there are several significant facts about renewable energy, particularly wind energy, that are all too often forgotten. First, Michigan's electric cooperatives believe wind energy is a valuable part of Michigan's renewable energy mix. However, let's provide some perspective on that role. At the end of 2010, 122 megawatts of wind energy was operating in Michigan. By comparison, Michigan's Lower Peninsula peak electrical demand alone reached nearly 20,000 megawatts this past summer.

Wind generation will not replace coal, nuclear, and/or natural gas as baseload fuels that allow Michigan's utilities to serve their customers on a daily basis. This is principally due to the high cost, compared to other current market alternatives, and intermittent nature of wind energy. Simply stated, the wind does not always blow at the same time the generation is most needed—typically a hot, sunny summer afternoon.

For example, the Harvest Wind Farm in Huron County, whose energy is transmitted to one of our members, Wolverine Power Cooperative, has operated approximately 30% of the time since it began production in late 2007 – and that is in an area that most experts agree is among Michigan's best for wind energy development. MECA believes those capacity factors, with technology advances, may continue to increase to around 40% here in Michigan.

Now, let's briefly address transmission and the cost to move that renewable energy. The transmission infrastructure costs associated with moving that wind energy from often remote, rural areas like Huron County, where it is produced, to areas where that energy can be consumed—typically urban and suburban load centers—is also very expensive particularly given the relatively small amounts of actual generation produced by any single wind energy project. This is because rural areas in which wind projects are currently being developed in Michigan typically do not have the existing infrastructure "scale" needed to export wind energy.

Lastly, one of the principal financial drivers of renewable energy development throughout Michigan and the country is the Federal Production Tax Credit—or PTC. This federal tax credit provides the owner/developer of a wind farm with a 2.2 cents/KWh federal tax credit for the first 10 years of operation of a typical utility-scale wind farm. Again, using the Harvest Wind Farm as an example, this would equate to approximately $30 million in federal tax benefit to the developer over the first decade of its commercial operation. That may soon change and with it we could see a significant slowing of renewable energy development in Michigan and throughout the country.

Currently, the PTC expires on December 31, 2012, and due to the current budgetary climate in Washington DC—it may not be renewed. A similar Investment Tax Credit or ITC, for renewable energy investments, is also set to expire at the end of 2015. MECA believes that both of these tax credits, which are so crucial to renewable energy development in this country, will have difficulty being renewed in today's political and budgetary climate in Washington DC. If these tax incentives do indeed go away at the federal level, Michigan utilities, as well as their counterparts from throughout the country, could struggle in meeting any Renewable Portfolio Standard, including ours here in Michigan.

On behalf of Michigan's electric cooperatives, I want to thank Chairman Nofs and members of the Senate Energy & Technology Committee for your time today. I am happy to answers any questions. Thank you.

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[1] MECA's membership consists of the following: Alger Delta Cooperative Electric Association, Cherryland Electric Cooperative, Cloverland Electric Cooperative, Great Lakes Energy Cooperative, HomeWorks Tri-County Electric Cooperative, Midwest Energy Cooperative, The Ontonagon County Rural Electrification Association, Presque Isle Electric & Gas Co-op, Thumb Electric Cooperative, Wolverine Power Marketing Cooperative, and Wolverine Power Supply Cooperative, Inc.

Michigan's electric cooperatives maintain over 36,000 miles of line to serve approximately 310,000 meters. This results in an average of approximately eight customers per mile of line. This compares to approximately 35 customers per mile for the average investor-owned utility and over 90 customers per mile for some municipal systems. As for annual kWh sales per mile of line, the cooperatives average 60,500; the IOUs 725,000; and municipals top the scale at 1,950,000 kWh per mile per year. Approximately 95% of cooperative customers are residential. Several cooperatives serve a considerable number of seasonal homes and cottages where annual usage is low, but maintenance and the annual cost to serve may be higher.